A REVIEW OF FISÇAL POLICY REFORMS IN THE ASEAN COUNTRIES IN THE 1980s

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I. INTRODUCTION

The first half of the eighties posed serious challenges to the economies of the ASEAN member countries. The period bore witness to the ramifications of the second oil shock, the prolonged international economic recession, and the deterioration in the price of most primary exports, including oil. These external shocks constituted the acid test for the strengths (and weaknesses) of the exuberant economies of the ASEAN nations. Unfortunately, all have been found wanting, albeit in varying degrees. Thus, during the period, all of the ASEAN countries suffered (1) severe macroeconomic imbalances that were manifested in some combination of the following problems: large twin deficits (current account as well as fiscal), high real interest rates, inflation, and huge external debt overhang; and/or (2) a slowdown in their economies' growth, if not outright economic recessions. Indonesia, Malaysia, the Philippines and Thailand had to contend with bloated fiscal and current account deficits (relative to secular trends in each country) in 1980-1983, and 1985/1986 with the former preceding the latter in Malaysia, the Philippines and Thailand in the earlier period. Indonesia suffered a recession in 1982, Malaysia and Singapore in 1985, and the Philippines in 1984-1985 (Table 1).

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Table 1
SELECTED INDICATORS OF ECONOMIC PERFORMANCE IN ASEAN COUNTRIES, 1978-1988
(In %)

Country	Fiscal Year Ending	Growth Rate Real GDP	Current Acct./GDP	Fiscal Surplus (Deficit)/ GDP
INDONESIA	1978	7.8	-2.6	-3.1
	1979	6.1	1.8	-2.2
	1980	8.0	3.9	-2.3
	1981	7.4	-0.6	-2.0
	1982	-0.3	-5.6	-1.9
	1983	3.2	-7.8	-2.5
	1984	6.1	-2.2	1.4
	1985	2.5	-2.3	-1.0
	1986	4.0	-5.2	-3.8
	1987	3.4	-3.1	-0.9
	1988	5.4	2.6	-3.1
MALAYSIA	1978	6.8	0.7	-7.7
	1979	9.4	4.4	-7.9
	1980	7.5	-1.2	-13.3
	1981	6.9	-9.9	-19.1
	1982	5.9	-13.5	-17.9
	1983	6.4	-11.6	-13.2
	1984	7.9	-4.8	-8.9
	1985	-1.1	-2.0	-7.4
	1986	1.4	-0.4	-10.6
	1987	5.3	8.1	-7.8
	1988	8.9	5.2	-4.3
PHILIPPINES	1978	5.5	-4.5	-1.2
	1979	6.3	-5.1	-0.2
	1980	5.2	-5.4	-1.3
	1981	3.9	-5.3	-4.0
	1982	2.9	-8.0	-4.2
	1983	0.9	-7.9	-1.9
	1984	-6.0	-3.9	-1.9
	1985	-4.3	-0.1	-1.8
	1986	1.4	3.2	-5.0
	1987	4.6	-1.4	-2.4
	1988	6.4	-1.0	-2.8
SINGAPORE	1978	8.6	-5.8	0.8
	1979	9.3	-7.8	2.3
	1980	9.7	-13.3	2.1
	1981	9.6	-10.6	0.7
	1982	6.8	-8.5	3.4
	1983	8.2	-3.5	1.8
	1984	8.3	-2.0	4.1
	1985	-1.5	-0.0	2.1
	1986	1.8	3.1	1.5
	1987	8.8	2.8	-2.8
	1988	11.0	6.9	
THAILAND	1978	10.6	-4.8	-3.6
	1979	5.1	-7.6	3.7
	1980	4.6	-6.4	4.9
	1981	6.3	-7.4	-3.4
	1982	4.0	-2.9	-6.6
	1983	7.1	-7.3	-4.0
	1984	7.1	-5.1	-3.5
	1985	3.5	-4.2	-5.5
	1986	4.4	0.6	-4.4
	1987	8.1	-0.7	-2.3
	1988	10.9	-2.9	1.0

Given this setting, it is not surprising, therefore, to find that fiscal policy reform has played a key role in the adjustment process in the ASEAN region in the eighties. The effective management of the fiscal deficit in terms of both its size and financing is an important feature of any attempt to effect a correction of the aforementioned external/internal disequilibria, i.e., stabilization. At the same time, the imperative of sustained economic growth dictates the necessity of reform in the structure of the tax system as well as in the composition of government spending, i.e., structural adjustment, in order to minimize, if not totally eliminate, existing distortions in the incentive structure thereby promoting the development of key sectors.

The policy instruments for stabilization, on the one hand, consist of variations in the fiscal aggregates of public revenues, spending, deficit and debt, and are expected to affect other equally broad macroeconomic variables like the interest rate, inflation, and the current account balance via the demand side. On the other hand, the instruments that fall under structural adjustment policies include modifications in the tax rates, tax bases, tax administration, and the quality and distribution (in both the economic and the functional sense) of government expenditures. These policy handles are expected to work on enhancing overall efficiency via the supply side. Thus, the first group of policies may be viewed as macro instruments while the second group is best described as basically micro level instruments. The potential conflict between these two sets of policies cannot be overemphasized, most particularly in the fiscal arena. Successful adjustment requires careful and conscious effort on the part of policymakers to come up with the appropriate mix of instruments as well as the precise timing and phasing of their implementation.

The purpose of this paper is to review the recent experience of the ASEAN countries in the area of fiscal policy reform and to cull the major lessons that emerge from such an undertaking. 1/ Our emphasis will be on the structural fiscal policy adjustments specifically in the field of tax and expenditure policy. We recognize that privatization and the reform of the public enterprise sector are important aspects of structural fiscal reform but time and resource constraints prevent us from including them in this review.

The remainder of the paper is divided into four parts. Section II reviews variations in broad fiscal aggregates as a background to the structural fiscal reforms that were undertaken. Section III presents the ASEAN countries' tax policy reform

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1/Brunei is not included in this study because of the dearth of data and references.

experience while Section IV focuses on the changing size and composition of government expenditures in the region.

II. FISCAL BALANCE: THE SETTING TO FISCAL POLICY REFORM

The eighties was an extremely difficult time for most of the ASEAN countries. Most of them had to contend with high fiscal deficits resulting from the pursuit of countercyclical fiscal policy during the global recession of the early 1980s. To compound their problems, foreign financing of their budgetary deficits started to dry up as the debt problem reached global proportions. In this section, we provide a brief run-through of the fiscal adjustments that were undertaken by the different ASEAN countries during this period.

By law, Indonesia is supposed to have a balanced budget. However, in fact, external aids and loans are included under revenues so that despite the balanced budget law, Indonesia had good-sized fiscal deficits during the 1980s. From 1978 to 1981, government expenditures including net lending increased rapidly in Indonesia, peaking at 25.6 percent of GDP in 1981. Although taxes were buoyant during this period because of the high price of oil, government savings were not enough to cover the large public investment program. Note that by any standard, government capital outlays in this period averaging at 10.6 percent of GDP were high. In 1981, faced with the prospects of lower oil prices in the future and the implied fiscal difficulties given the heavy reliance on oil revenues, the Indonesian government started to prepare the groundwork for tax reform and also expenditure adjustment. In 1983, the implementation of major public investment projects were rescheduled. In 1984-1985, a comprehensive tax reform was adopted. Thus, when oil revenues declined from 1984 onwards, the government was able to keep its deficit under control for most of the remaining years in the eighties. In 1986, the deficit rose to 3.8 percent of GDP as a result of an expansionary expenditure program coupled with the severe erosion of oil revenues in that year when oil prices reached rock bottom. By 1987, though, its fiscal balance has recovered as a result of restraints on the expenditure side. In 1988, a deficit equal to 3.1 percent of GDP emerged once again due to a further decline in government revenues.

Malaysia, on the other hand, pursued countercyclical fiscal policy in the early eighties as it attempted to shield its domestic economy from the recession in the industrialized countries. Thus, 1980-1983 were years of extremely large fiscal deficits. The biggest deficit was registered in 1981 and was equal to 19.1 percent of GDP. Coupled with external disequilibrium as manifested in equally huge current account deficits in 1982-1983, the fiscal stance proved unsustainable and the government embarked on a policy of fiscal restraint which it has not abandoned since then. Malaysia relied heavily on expenditure control rather than on revenue generation. Thus, by 1988, its total expenditure inclusive of net lending was cut to 28.3 percent of GDP as against the 46.6 percent level in 1981. In this way, Malaysia was able to attain a more comfortable fiscal deficit amounting to 4.3 percent of GDP in 1988 although total revenues as a proportion of GDP declined from 27.4 percent in 1981 to 23.9 percent in 1988.

The Philippines, like Malaysia, was on a binge in 1980-1982, as it pursued an expansionary countercyclical expenditure program. Maybe because of easy access to external sources of financing in those years, little attention was paid to domestic resource mobilization resulting in the deterioration of tax revenues to an all time low of 9.9 percent of GDP. Consequently, the fiscal deficit ballooned to 4.2 percent of GDP in 1982. As a reflection of the underlying macroeconomic imbalance, the current account deficit also soared in 1983. In 1983-1985, the Philippines experienced its worst recession since Independence. Thus, the Philippines had no choice but to undertake a program of fiscal austerity to help bring about the correction of the external/internal disequilibria. Government expenditures were cut deeply particularly capital expenditures. In 1986, with a new administration in power, the government adopted a tax reform program. While the expenditure aggregates seem to indicate that the government has relaxed somewhat in 1986-1988, a closer examination of the data reveals that total expenditures net of debt service were below their trend levels. The country's debt burden has led an increase in interest payments making the government budget appear larger than what it really is.

Singapore has always enjoyed a strong fiscal position. Except in 1966 and 1967, the central government has always been in a surplus position. What triggered the move towards fiscal policy reform in Singapore in the 1980s was the negative rate of growth experienced by the economy in 1985. Thus, in 1986, the government implemented the elements of a tax reform program. Given the proximate reason for the reform, it is therefore not surprising that it took on a rather interventionist approach. Revenues declined with the reform. Government expenditures were also increased in 1986. Consequently, the fiscal surplus was reduced in that year. In a sense, the changes undertaken had all the elements of a Keynesian demand management program.

Thailand's story is very similar to that of Malaysia and the Philippines. Fiscal expansion in the early eighties resulted in high fiscal deficits. The current account also posted a large deficit in 1983. In response, the government implemented a tax reform program in 1986 coupled with tight expenditure controls.

III. TAX POLICY REFORM

The eighties, perhaps more than any other period in recent history, witnessed an almost overwhelming wave of tax reform efforts across the globe. The ASEAN region is no exception. However, Table 2 shows that the tax reform initiatives in the various ASEAN countries are widely diverse. This paper therefore makes use of the taxonomy of tax reform attributes outlined in Gillis (1989a). It is hoped that this will facilitate a systematic comparison of this experience. He proposed six general characteristics that may be utilized to classify various tax reform initiatives, namely: (1) breadth of reform (tax structure vs. tax system, i.e., tax structure plus tax administration); (2) scope of reform (comprehensive vs. partial reform); (3) revenue goals (revenue enhancing vs. revenue neutral reform); (4) equity goals (distributionally neutral vs. redistributive reform); (5) resource allocation goals (economically neutral vs. interventionist reform); and (6) timing of reform (contemporaneous vs. phased reform).

Before proceeding to an analysis of the ASEAN tax reform measures based on these six attributes, the next sub-section presents a description of the changing trends in the level and composition of tax and nontax revenues in ASEAN. The purpose here is to provide a statistical perspective against which to evaluate the tax reform initiatives in the ASEAN region.

A. Trends in the Tax Level and its Composition

Tables 3 and 4 present trends in the level and composition of government revenues in the ASEAN countries. The variation in the ratio of total government revenue to GDP across countries is greater than that of the tax revenue to GDP ratio. In terms of total revenues, Singapore registered the highest ratio (32.8 percent) in 1988, while the oil-producers, Indonesia and Malaysia, ranked first (with some 16.0 percent) in terms of the total tax ratio in 1988. In both cases, the Philippines was at the bottom with a total revenue to GDP ratio of 13.7 percent and a total tax to GDP ratio of 10.9 percent. If taxes from oil were excluded, Indonesia is left with the lowest tax ratio of only 7.4 percent in 1988.

Between 1978 and 1988, only Thailand exhibited an upward trend, which was particularly pronounced in 1987-1988, in the total revenue and total tax ratios. Between 1980 and 1985, the Philippine ratios declined markedly. From 1986 onwards, however, there was some recovery. Similarly, while the total tax ratio in Indonesia showed a well defined downward trend in 1980-1987, its non-oil tax ratio started to rise in 1985. In contrast, the tax ratios of both Malaysia and Singapore declined in 1986 and 1987. We note that the shifts observed here are consistent with the timing and the nature of the tax reforms undertaken by these countries in the eighties.

Table 2
SALIENT FEATURES OF TAX REFORM MEASURES IN ASEAN IN THE 1980s

INDONESIA

Income Tax

--- A global income tax system is put in place. It replaced four different taxes on individuals, businesses, interest, dividends and royalties, and withholding tax on employment.

--- Income tax rates were lowered with the top marginal rate now set at 35 percent against the previous 50 percent rate for individual income and the 45 percent for corporate income. The number of income brackets was also reduced to three.

--- Personal exemption level was raised.

--- Fringe benefits provided by companies, donations, and insurance premiums are considered nondeductible costs.

--- Depreciation system was simplified. New system is based on open-ended accounting with assets classified into four groups. The double declining method is prescribed for the computation of the depreciation charges all assets except those in the building class.

--- Loss carry forward is allowed for five years.

--- Mechanism for withholding tax was simplified.

--- Charitable contributions are no longer tax deductible.

--- Income of civil servants are now subject to tax.

--- The use of special norms to compute tax of small businesses is introduced.

--- All tax incentives were abolished.

--- The previous system of using "official assessment" to compute tax liability is replaced by self-assessment method.

--- Computerization of the tax collection machinery.

Value-added Tax

--- A consumption type, destination principle value-added tax using the tax credit method was adopted in place of the turnover tax.

--- The tax rate is 10 percent on all taxable goods and services except exports which are zero-rated.

Table 2 (cont'd)

--- Taxable goods include all manufactured goods. Taxable services are limited to construction. Unprocessed food are effectively outside of the VAT net.

--- Small firms, those with an annual turnover less than Rp. 60 million, are exempt from VAT.

--- The VAT is complemented by the imposition of a sales tax on certain luxury items.

Property Tax

--- The tax base was changed from the annual rental value to the capital market value.

--- Buildings were granted an exemption equal to Rp. 2 million.

--- Exemptions from the property tax was restricted.

MALAYSIA

Personal Income Tax

--- The marginal tax rates are lowered from the 6-55 percent range to the 5-40 percent range. The tax brackets were also widened.

--- Personal tax relief, deductions for children, allowance for children educated abroad, exemption from tax on interest were increased.

Corporate Income Tax

--- The rate was reduced to 35 percent.

--- Investment incentives were made more liberal. Accelerated depreciation allowance and reinvestment allowance extended to 1988. Abatement against adjusted income granted to exporters. Special abatement incentives were granted for geographical location, use of local raw materials, and to small firms.

Sales and Excise Taxes

--- Definition of "small" manufacturers who are not required to pay the sales tax was liberalized.

--- Sales and excise tax on certain consumer durables were abolished.

--- Sales tax rate was increased from five percent to 10 percent.

Table 2 (cont'd)

--- Coverage of sales tax on services was broadened.

--- Excise tax on liquor and tobacco products were increased and converted from specific to ad valorem basis.

--- Excise duties on locally assembled cars were increased.

Motor Vehicle Taxes

--- Road tax was increased. Registration and other charges on motor vehicles were increased.

--- Road tax on company cars was reduced from four to two times of the road tax on privately owned petrol cars.

Export Duties

--- Export duties on all fruits and spices except pepper were abolished.

--- Export duty on palm oil was revised to encourage greater incentive for local processing.

Import Duties

--- Import duties on cars, liqour, tobacco products were increased.

--- Surtax on raw materials was incorporated in the import duty.

--- Import duties in foodstuffs, garments and manufactured goods were revised upwards.

PHILIPPINES

Personal Income Tax

--- The rate structure for compensation and business incomes was unified, effectively reducing the tax rate on business income.

--- Final tax on interest income, royalties and winnings was increased to 20 percent.

--- Tax on dividends was abolished.

--- Exemptions levels were increased.

--- Separate taxation of the incomes of spouses was adopted.

Table 2 (cont'd)

Corporate Income Tax

--- The graduated rate structure of 25-35 percent was replaced by a flat 35 percent rate.

--- The investment incentives system was revised. Notably, the income tax holiday was introduced.

Value-added Tax

--- A consumption type, destination principle VAT using the tax credit method was adopted. It replaced the manufacturer's sales tax, the miller's tax, the contractor's tax, the broker's tax, the tax on lessors of personal property and other fixed taxes.

--- The tax rate is 10 percent on all taxable goods and services. Exports are zero rated while agricultural products, major inputs to agriculture, most petroleum products, books and other printed materials, utilities, financial, medical, educational, transport, communication and other services and sales of small entities are exempted.

--- It is complemented by an excise tax on luxury items.

Excise Tax

--- The specific basis was converted to an ad valorem basis.

--- Excise tax on fuel oil was abolished.

Other Taxes

--- All export duties except that on logs was abolished.

--- Tax expenditures were restricted.

SINGAPORE

Personal Income Tax

--- The marginal tax rate schedule was reduced from 6-55 percent to 3-33 percent.

--- An across-the-board 25 percent rebate of the tax liability was given in 1986.

--- Child relief for "qualified women" was increased.

Corporate Income Tax

--- The rate was reduced from 40 percent to 33 percent.

Table 2 (cont'd)

--- Accelerated depreciation of all new plant equipment is allowed in all sectors, not just manufacturing. Computer equipment may be expensed rather than depreciated.

--- Investment allowance is also provided to both manufacturing and service companies.

--- 50 percent exemption of tax on profits in excess of a fixed base is granted to warehousing and servicing industries and international consultancy services.

--- Tax relief for R&D expenditures is granted to approved companies.

--- Tax incentives are granted to companies investing in new technologies and nontraditional areas.

--- Coverage of incentive scheme for fund management was broadened.

Other Taxes

--- The payroll tax was suspended beginning in April 1985.

--- The Skills Development Fund (SDF) levy was reduced from four percent to two percent.

--- Property tax rebate of 30 percent, then 50 percent was granted from 1985 to 1988. The rate of the development levy was cut from 70 percent to 50 percent.

--- Tax on PUB gas, electricity charges, and sugar were suspended. Ad valorem duty on petrol was reduced from 60 percent to 50 percent.

THAILAND

Personal Income Tax

--- The marginal rate schedule was reduced from 7-65 percent to 7-55 percent.

--- The number of income brackets was reduced from 13 to 11.

--- Interest on housing loans was made deductible.

--- Tax on interest from fixed deposits was increased from 12.5 percent to 15 percent. Interest from government bonds, cooperative savings and deposits and other interest income are now taxed.

Table 2 (cont'd)

--- Gains on sales of certain securities are now subject to tax of 15 percent.

Corporate Income Tax

--- The tax rate was reduced from 40 percent to 35 percent.

--- Tax on nonprofit organizations was increased from five percent to 10 percent.

--- Presumptive taxation of small firms was introduced.

Table 3
AGGREGATE REVENUE INDICATORS IN ASEAN COUNTRIES
1978-1988

Country	Fiscal Year Ending	Total Revenue/GDP	Tax Revenue/ GDP	Oil Tax/ GDP	Non-oil Tax/ GDP	Nontax Revenue/ GDP
INDONESIA	1978	18.2	17.0	9.6	7.4	1.3
	1979	20.5	18.9	12.4	6.6	1.6
	1980	21.3	20.2	14.3	5.9	1.0
	1981	23.6	20.3	14.8	5.6	3.3
	1982	20.5	19.1	13.0	6.1	1.4
	1983	21.0	18.8	12.1	6.0	2.2
	1984	21.5	17.5	12.0	5.5	4.0
	1985	21.5	18.8	11.8	7.0	2.7
	1986	22.2	15.6	7.7	8.0	6.6
	1987	21.9	16.7	8.8	7.7	5.2
	1988	18.1	16.1			2.0
MALAYSIA	1978	23.3	20.0	2.0	17.9	3.4
	1979	22.6	19.4	1.8	17.5	3.3
	1980	26.1	22.6	4.5	18.1	3.5
	1981	27.4	21.9	5.6	16.3	5.6
	1982	26.7	20.1	5.5	14.6	6.6
	1983	26.8	21.9	5.0	17.0	4.8
	1984	26.2	20.7	5.3	15.5	5.4
	1985	27.2	21.5	6.2	15.4	5.7
	1986	27.4	20.6	5.8	14.8	6.8
	1987	23.1	15.9	3.4	12.4	7.2
	1988	23.9	16.4			7.5
PHILIPPINES	1978	13.6	11.5			2.0
	1979	13.6	11.9			1.6
	1980	13.1	11.5			1.6
	1981	11.8	10.3			1.5
	1982	11.2	9.9			1.3
	1983	11.9	10.4			1.5
	1984	10.5	9.3			1.3
	1985	11.3	10.1			1.3
	1986	12.6	10.4			2.2
	1987	14.6	12.1			2.4
	1988	13.7	10.9			2.7
SINGAPORE	1978	23.8	16.4			7.1
	1979	25.2	16.5			7.3
	1980	26.4	17.5			7.8
	1981	29.6	18.5			8.1
	1982	30.8	19.7			8.0
	1983	31.9	19.4			10.3
	1984	29.0	18.4			10.2
	1985	37.7	16.4			11.2
	1986	39.2	13.6			13.6
	1987	32.8	14.2			16.6
THAILAND	1978	12.9	11.7			1.1
	1979	13.8	12.4			1.1
	1980	13.8	13.2			1.2
	1981	14.9	13.5			1.5
	1982	15.6	13.0			1.4
	1983	17.1	14.3			1.4
	1984	16.7	14.3			1.4
	1985	16.9	14.3			1.8
	1986	17.0	14.1			1.6
	1987	18.3	14.1			1.5
	1988	20.6	15.8			1.4

Table 4
COMPOSITION OF TAX REVENUES IN ASEAN COUNTRIES, 1978-1988

Country	Fiscal Year Ending	Taxes on Income and Profits /GDP Oil	/GDP Non-oil	/GDP All	/Tot. Tax Oil	/Tot. Tax Non-oil	/Tot. Tax All	Taxes on International Trade /GDP	/Tot. Tax	Other Taxes /GDP Oil	/GDP Non-oil	/GDP All	/Tot. Tax Oil	/Tot. Tax Non-oil	/Tot. Tax All
INDONESIA	1978				57.5	16.6	74.1		14.2					28.3	28.3
	1979	9.6	2.9	12.5	56.7	16.9	73.5	2.4	14.4		2.1	2.1		28.9	28.9
	1980	12.4	2.5	14.9	65.4	13.4	78.8	2.5	13.0		1.6	1.6		21.6	21.6
	1981	14.4	2.5	16.8	70.8	12.2	83.0	1.9	9.6		1.5	1.5		19.6	19.6
	1982	14.8	2.5	17.3	72.7	12.4	85.1	1.5	7.5		1.5	1.5		19.9	19.9
	1983	13.0	2.9	16.0	68.2	15.4	83.5	1.3	7.0		1.8	1.8		24.9	24.9
	1984	12.9	2.8	15.8	68.4	15.0	83.4	1.2	6.6		1.9	1.9		25.0	25.0
	1985	12.0	2.8	14.8	68.5	15.9	84.4	1.0	5.7		1.7	1.7		25.8	25.8
	1986	11.8	2.6	14.4	62.8	14.0	76.7	0.7	3.7		3.7	3.7		33.6	33.6
	1987	6.6	2.6	9.2	42.3	16.4	58.7	1.1	6.9	1.1	4.3	5.4	6.7	37.3	44.1
	1988	8.8	2.6	11.3	53.4	15.6	69.0	1.0	6.0		4.1	4.1		40.7	40.7
MALAYSIA	1978	2.0	6.7	8.7	10.5	33.1	43.6	7.4	36.8		3.9	3.9		19.6	19.6
	1979	1.8	6.5	8.3	9.2	33.4	42.6	7.4	38.4		3.7	3.7		19.0	19.0
	1980	3.3	7.1	10.4	14.4	31.2	45.6	8.7	38.4	1.3	2.4	3.7	5.6	10.4	16.0
	1981	3.4	7.2	10.6	15.7	32.8	48.5	7.8	35.5	2.2	1.4	3.6	9.9	6.1	16.0
	1982	3.3	6.9	10.2	16.5	34.3	50.8	6.5	32.1	2.2	1.3	3.5	10.8	6.4	17.1
	1983	2.9	8.2	11.1	13.1	37.4	50.5	6.4	29.4	2.1	2.3	4.4	9.7	10.4	20.1
	1984	3.2	7.4	10.6	15.6	35.6	51.2	6.0	29.1	2.1	2.0	4.1	9.9	9.8	19.7
	1985	4.0	7.9	11.9	19.7	36.7	56.4	5.6	26.1	2.1	1.9	4.0	9.8	8.7	18.5
	1986	4.3	7.8	12.1	20.9	38.0	58.9	4.5	21.8	1.5	2.5	4.0	7.3	11.9	19.2
	1987	2.0	6.3	8.3	12.3	39.6	51.9	4.1	25.7	1.5	2.1	3.6	9.4	13.1	22.5
	1988		8.4	8.4		51.0	51.0	4.3	26.0		3.8	3.8		23.0	23.0

Table 4 (cont'd)

Country	Fiscal Year Ending	Taxes on Income and Profits /GDP	Taxes on Income and Profits /Total Tax	Taxes on International Trade /GDP	Taxes on International Trade Total Tax	Other Taxes /GDP	Other Taxes Total Tax
PHILIPPINES	1978	3.1	26.8	4.4	38.3	4.0	34.9
	1979	2.9	23.9	4.4	36.5	4.7	39.6
	1980	2.8	23.8	4.4	38.0	4.4	38.2
	1981	2.5	24.7	3.7	35.4	4.1	39.9
	1982	2.5	24.9	3.6	35.8	3.9	39.3
	1983	2.4	22.7	4.3	41.4	3.7	35.9
	1984	2.3	24.2	3.2	34.3	3.9	41.5
	1985	3.1	30.5	2.8	27.4	4.2	42.1
	1986	3.1	29.2	2.8	26.7	4.6	44.0
	1987	3.1	25.4	3.7	30.3	5.4	44.4
	1988	3.3	30.3	3.1	28.3	4.5	41.4
SINGAPORE	1978	7.2	45.2	3.1	19.2	5.7	35.7
	1979	6.8	43.4	2.9	18.2	6.0	38.4
	1980	7.6	46.5	2.7	16.4	6.0	37.2
	1981	9.0	50.5	2.4	13.3	6.4	36.2
	1982	9.9	52.5	2.3	12.3	6.6	35.1
	1983	9.6	49.8	2.3	12.1	7.4	38.1
	1984	8.9	47.0	2.5	13.1	7.6	39.9
	1985	7.7	44.4	2.5	14.5	7.2	41.1
	1986	5.8	43.0	2.2	16.3	5.5	40.6
	1987	5.6	42.7	2.2	17.0	5.3	40.3
	1988	5.9	42.0	2.3	16.4	5.9	41.6
THAILAND	1978	2.3	20.1	3.3	27.7	6.4	51.9
	1979	2.5	19.9	3.4	27.6	6.6	52.8
	1980	2.6	19.4	3.8	26.2	6.8	54.2
	1981	2.8	21.1	3.6	25.1	7.0	53.2
	1982	3.0	23.0	2.9	20.9	7.0	55.4
	1983	2.9	20.5	3.2	22.6	7.6	55.8
	1984	3.2	22.3	3.5	24.3	7.8	53.4
	1985	3.3	23.3	3.3	22.2	7.7	56.0
	1986	3.3	23.1	2.9	20.5	7.7	55.8
	1987	2.9	20.1	3.2	20.8	8.8	57.7
	1988	3.4	21.6	3.9	24.9	8.4	53.5

It is only in Singapore and Malaysia where nontax revenues account for a large portion of total government revenues. In Singapore, this share has been increasing in the 1980s such that by 1988, it has exceeded the 50 percent of total revenues. A similar trend was observed in Malaysia but its nontax revenues accounted for only 31.3 percent of total revenues in the same year. In Thailand and Indonesia, the share of nontax revenues to total revenues has been maintained at less than 10 percent. In the Philippines, it was just slightly higher than 10 percent in the early eighties but has increased significantly since 1986.

Direct taxes account for over 50 percent of total taxes in Indonesia, Malaysia, and Singapore. Note, however, that if oil revenues were not included, direct taxes in Indonesia and Malaysia would not be as important. The share of direct taxes to total tax revenues is lowest in Thailand at less than 25 percent for most of the eighties. In 1986, this sank lower to less than 20 percent. On the other hand, the contribution of direct taxes to total tax collections in the Philippines was just as low as that of Thailand in the years before 1985. After that year, the share of direct taxes rose to 30 percent.

Domestic indirect taxes account for about 55 and 40 percent of total tax revenues in Thailand and the Philippines, respectively. This suggests that any reform of the tax system, if it is to be meaningful, should tackle problems/issues in this area squarely.

International trade taxes (tariffs and export duties) are an important revenue source in the Philippines, Malaysia and Thailand, contributing from 25 to 30 percent of tax revenues at the start of the eighties. In these countries, however, the reliance on this tax has been on the wane because of the recent reform of their tariff systems.

B. Breadth, Scope and Timing of Reform

In 1984-1985, Indonesia restructured its tax system with wide ranging changes introduced in tax structure as well as in tax administration. The Indonesian case has been cited as one of the most comprehensive and successful tax reform initiatives worldwide in the last decade (Jenkins 1988). Its success is attributed to the substantial amount of lead time, prior to the reform, spent in the conduct of technical studies of various features of the tax system (Harberger 1989).

The Philippines, likewise, implemented a massive overhaul of its tax structure in 1986, soon after the Aquino government's ascent into power. While the Philippine government has had a propensity to tinker with its tax system year after year, the 1986 tax package is truly deserving of being called tax reform because of the scope of the modifications that were instituted. As originally envisioned, the package will consist of changes in both structure and administration. To date, however, no significant improvements in the administrative and compliance aspects have been put in place. The introduction of the value added tax (VAT) in 1988 forms part of the whole package enacted in 1986. However, a lot of initial problems were encountered in the implementation. Said problems may be traced to the inadequacy of the preparatory steps that were taken.

Faced with the 1985 economic recession, the Singapore government convened the Economic Committee with representatives from both the public and private sectors to assess the country's economic performance and prospects for future growth. The Committee came up with a Report in July 1985 which recommended, among others, a major tax restructuring for Singapore (Lim et al. 1988). From July 1985 onwards, a number of the Committee's proposals have been implemented. To date, however, the government has not acted upon a number of them. It is also worth noting that some of the tax measures enacted were supposed to be operational only until the economy has fully recovered (Asher 1987).

In February 1986, Thailand enacted revisions in its Revenue Code. The changes covered all parts of the Code, namely, the structure of most of the major taxes and tax administration. There are indications that further restructuring of Thailand's tax system are still being envisioned by its policymakers (Silpakul 1986).

Numerous changes were also introduced in the tax system of Malaysia in the 1980s. They took the form of inclusions in the annual budget documents. While the modifications that were put in place covered practically the whole tax spectrum, they are usually perceived as piecemeal measures (Asher and Jomo 1987). To use Gillis' (1989a) terminology, they represent tax adjustments rather than tax reform. In response to this problem, the Malaysian Institute of Economic Research set up a Tax Reform Group in 1987. The Group's recommendations were submitted to the Treasury in 1988 and are currently the subject of debate and further studies (Asher 1989).

C. Revenue Goals

Virmani (1988) noted that revenue generation is the most common objective in tax reform. Given the serious fiscal adjustments necessary to restore internal/external balance in most of these countries in the period immediately preceding the institution of tax reform measures, it is rather unexpected that in the ASEAN region, revenue enhancement does not seem to receive much attention.

In Malaysia and Singapore, recent tax changes are generally perceived to be revenue reducing (Asher 1987, Asher and Jomo 1987). Singapore has traditionally enjoyed surpluses in its fiscal balance so that revenue enhancement was not a major concern. Furthermore, since the immediate objective is economic recovery, the framers of the new tax package appear to be driven by the desire to stimulate domestic demand. Thus, most of the measures enacted under its reform program took the form of tax expenditures and tax cuts, e.g., property tax rebate, reduction in the Skills Development Fund (SDF) levy, suspension of the payroll tax, reduction of corporate income and personal income tax rates, more liberal approval of applications for investment allowance, accelerated depreciation allowance for new plant equipment in all sectors (not just manufacturing), and numerous other investment incentives. Similarly, a general lowering of the tax rates and a narrowing of the base (as in the allowance of more generous exemptions and deductions, from personal income, more liberal tax incentives, increased depreciation allowances and more limited applicability of the excise and sales taxes with respect to consumer durables) featured prominently in the tax adjustments undertaken by Malaysia. Although the Malaysian government, in response to the fiscal difficulties of 1981-1982, doubled (to 10 percent) the sales tax on goods and services and significantly increased the road tax, these upward movements were partially reversed in 1985-1986. In the 1989 budget, the reduction in the corporate income tax rate from 40 to 35 percent, the abolition of the development tax and the broadening of the coverage of fiscal incentives are expected to further erode the revenue yield of the tax system despite some widening of the sales tax base (Asher 1989).

Official policy pronouncements in the Philippines indicate that while increased revenue generation was an important consideration, nonrevenue objectives were not sacrificed for revenue enhancement in the formulation of the 1986 tax reform program. For instance, in attempting to rationalize the individual income tax, the tax on business income was effectively reduced. Towards the end of 1987, the excise tax on petroleum product was restructured whereby the tax on fuel oil was abolished. The negative impact on revenue generation is not negligible since petroleum products have traditionally accounted for a significant proportion of total tax revenues. However, the tax on interest was increased from 17.5 percent to 20 percent while the corporate income tax was changed from the two-tiered 25-35 percent levy to a flat 35 percent rate. A one-time tax amnesty program was also put in place. Furthermore, the expediency of meeting the resource gap has led the Philippine government to introduce several new tax measures that are primarily aimed at raising additional revenues in 1990. These measures are not part of the original reform program instituted in 1986. They include sharp increases in the excise tax on so-called sin products like cigarettes and beer.

Indonesia initiated its tax reform efforts with the preparation of technical studies in 1981 when the country's fiscal position was fairly strong. Thus, as originally conceived, the tax reform package was designed to be revenue neutral. However, by 1983, it became apparent that the decline in the expected revenues from the oil sector necessitated a more aggressive resource mobilization stance (particularly from the non-oil sector) on the part of the government (Gillis 1989a). While tax rates were lowered in certain cases, the elimination of numerous tax exemptions effectively broadened the tax base. A strengthening of the fiscal machinery in terms of improved tax administration is another important trait of the Indonesian tax reform that augurs well for increased revenue generation.

In 1986, Thailand introduced several measures that are aimed at generating additional revenues like increasing the rate and widening the scope of the tax on interest, increasing the tax rate on nonprofit organizations from 5 to 10 percent, widening the use of presumptive taxation, instituting a pay-as-earn system in the collection of personal income tax, and reducing the time lag between the accrual and the payment of tax liability with respect to business and professional income (Silpakul 1986, Asher 1989). Note that a number of these measures represent improvements in the administrative system rather than increased tax rates or the imposition of a tax on a heretofore untaxed item. On the other hand, the top marginal tax rate on personal income was reduced from 65 to 55 percent while the corporate income tax rate for companies not listed in the Thai Stock Exchange was decreased from 40 to 35 percent. If it is true, as Sicat and Virmani (1987) argue, that the top marginal tax rates on personal income in most LDCs apply to a very insignificant portion of the population, then it is likely that the combined impact on revenue of the base-broadening measures and the rate reduction will still be positive. 2/ Meanwhile, the reduction in the corporate income tax rate is bound to reduce, at least in the short run, the expected revenues from this source, given the time lag before positive supply side effects, if any, are felt.

With regard to the revenue objective of tax policy, an examination of the recent trends in tax indicators in the ASEAN countries shows that to a large extent, policy initiatives are congruent with results. Tax effort defined as the ratio of tax revenues to GDP, declined in Malaysia and Singapore between 1980 and 1988. While Indonesia's overall tax effort also went down because of the dramatic decline in the price of oil in the international market, its non-oil tax efforts registered significant improvements during the period that Malaysia's effort did not. Thailand posted a sharp increase in its tax to GDP ratio in 1987 and 1988. The Philippines exhibited a smaller increment after its 1986 reform and statistical tests suggest that the buoyancy of its tax system has just been restored to its

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2/Of course, the exact effect will depend on the interaction of the marginal tax rate schedule and the distribution of income.

pre-1980s level after suffering considerable erosion in the early eighties (Manasan 1990).

D. Resource Allocation Goals

Following Gillis (1989a), we say that a tax change is "neutral" if it "raises the desired amount of revenue in such a way as to leave economic decisions unaffected, except by the effects of taxes in reducing real income and wealth." 3/ The primary aim of an economically neutral reform is to minimize, if not eliminate, the distortions caused by taxes on the choices faced by economic agents. Implicitly implied here is the need to look at effective tax rates rather than nominal tax rates in evaluating the neutrality of the tax sytem. In this sense, greater neutrality in taxation is generally associated with a shift toward greater uniformity in tax rates and greater consistency in the definition of the tax base. 4/ On the other hand, an "interventionist" tax reform is one where the tax system is used to deliberately influence various economic agents to act in certain ways that are deemed to be desirable by the government. In this context, tax policy is seen as an instrument for "targeting" the factors and/or activities that are associated with economic development. It goes beyond ensuring efficiency in the allocation of given resources.

One of the four ultimate objectives of the Indonesian tax reform was "the removal of tax-induced incentives for waste and inefficiency" (Gillis 1985). Given this perspective, the Indonesian tax reform scores high in terms of economic neutrality. Gillis (1989b) goes even farther to assert that in the Indonesian context, the shift implied by the tax changes is one that also leads to greater efficiency. This redirection of the tax system was achieved by means of the following: (1) the complete elimination of the highly complex system of tax incentives that were originally intended to promote specific activities/investments, whether domestic or foreign; (2)

3/To quote again from Gillis (1989a), "an economically 'neutral' tax structure is not necessarily an 'optimal' tax structure, nor even an 'efficient' one."

4/In the case of commodity taxation, if neutrality is achieved by means of imposing uniformly low rates on a broad range of goods, it can be argued that such a move will also be efficient. This is because one of the most robust results (under various assumptions with regard to model specification and parameters) of the modern theory of optimal taxation is the conclusion that efficiency losses are positively related to the tax rates. Note further that from the more limited view of economic neutrality as well as from that of optimal tax theory, the taxation of intermediate inputs is seen as distortionary.

imposition of a three-tiered global income tax applicable to both firms and individuals to replace the very complicated personal income tax that was riddled with exemptions and special treatment (salaries of civil servants, interest income, income from cooperatives, capital gains, pension income, rental income, honoraria, leave and educational allowances and assorted fringe benefits), and the corporate income tax that was also eroded by the numerous incentives referred to in (1); (3) the introduction of a broad-based (only small firms and unprocessed food are exempted) and uniform VAT (10 percent) imposed at the manufacture's level instead of the turnover tax that was characterized by a high degree of rate differentiation; and (4) improvements in tax administration and tax compliance with the conversion from a system where tax liability is determined via "official assessment" with frequent contacts between tax officials and taxpayers to one that is characterized by taxpayer assessment, greater depersonalization, automatic withholding methods, and computerization. The old system has resulted in the sharply uneven treatment of corporations and individuals.

The abovementioned changes were aimed at the leveling down of such differences. Furthermore, the withdrawal of all tax incentives will alleviate the bias in favor of capital intensive activities and against small firms inherent in the earlier regime (Gillis 1985). Likewise, the enactment of the VAT effectively eliminates the inefficiencies associated with the implied taxation of inputs under the old turnover tax. Finally, the administrative innovations represented a frontal attack on tax evasion and avoidance. They not only increased the tax yield but also promoted the neutrality goals of the tax reform program since tax evasion drives a wedge in effective tax rates that are otherwise uniform.

Malaysia, on the other hand, moved in the opposite direction. Exemptions from its sales tax were increased: the cut-off in the level of yearly gross sales used to define "small manufacture's" was raised five-fold to MS100,000 and the sales tax on certain consumer durables was abolished (although the coverage of the service tax was broadened). The fiscal incentives scheme has been made more liberal despite the elimination of some existing incentives. Additional exemptions (e.g., interest income) and deductions (e.g., expenses for the education of children abroad) from the personal income tax were also granted during the period. Asher (1988) has argued that these changes can "only widen the dispersion of effective tax rates by individuals, firms, and activities." One of the reforms currently being considered in Malaysia is the institution of a VAT in the medium or the long term. While the presence of a ring system extenuates the cascading effect of the sales tax in Malaysia, the experience of the Philippines has shown that the shift to the VAT is still a worthwhile movement from the resource allocation perspective. This follows from the fact that the reduction in that portion of the effective tax on consumption imputable to input taxation is considerable even if the VAT took the place of a sales tax with tax credit provisions for inputs.

The Philippines' Medium Term Development Plan of 1987-1992 states that one of the principal objectives of fiscal policy is the improvement of efficiency. Specifically, it asserts that tax reform shall be directed at, among others, "withdrawing or modifying taxes that impair incentives to production, exports, and growth."

In fact, however, the tax changes initiated from 1986 onwards are a curious mix of economically neutral and interventionist measures. First, the shift from the schedular individual income tax system to one which is more global in approach has been shown to eliminate, in principle, the differences in the effective tax rates applicable to salaried and nonsalaried taxpayers in the same income bracket. However, improved neutrality of the tax system implied by this modification has been jeopardized by the failure of the government to reduce the avenues for tax evasion although the original package of tax reform measures included an administrative provision to this effect (Manasan 1990). Second, the move to allow spouses to compute tax separately is expected to reduce the distortion arising from the fact that the old provision subjected the wife to a higher marginal tax rate than the single individual. Third, the movement to a uniform corporate income tax rate from a graduated two-tiered rate schedule may also be expected to remove the biases inherent in the earlier form of the tax, i.e., eliminate the relative penalty against large and/or profitable firms. Fourth, the abolition of the tax on dividends eliminates the element of double taxation that is inherent in the previous system. Fifth, prior to the introduction of the VAT in 1988, the Philippines had a manufacturer's sales tax with a tax credit provision for inputs. Inspite of this, it was shown that because of the limited nature of the tax credit, considerable cascading still occurred such that on the average, about 50 percent of the effective tax rate may be traced to input taxes. Thus, the change to the VAT led to marked improvements in efficiency in this regard. However, there are a number of exemptions from the VAT: agricultural products, major inputs into agriculture, petroleum products, small producers, etc., so that some taxation of inputs still exist (Manasan 1990). 5/ Sixth, the elimination, in 1987, of the excise tax on fuel oil, which is an important input in production, also enhances economic efficiency. Finally, the enactment of the Omnibus Investment Code of 1987 is diametrically opposed to the first four measures discussed above in terms of

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5/What these findings indicate is that the shift to a VAT will improve efficiency even if the tax it replaced is a sales tax with VAT-like features.

economic neutrality considerations. This Code has been criticized as being more distortionary than the previous incentive regime with regard to factor choice in production. It has also been shown that it resulted in the deterioration of the incentive scheme's capability to adequately compensate for the effective penalty on exports that is implied by the present protection structure (Manasan 1990). 6/

Singapore, on the other hand, pursued an interventionist approach to tax reform in the eighties. The three major goals of tax reform, as recommended by the Economic Committee, are: (1) consistency with Singapore's comparative advantage, (2) international competitiveness, and (3) provision of adequate impetus to the local and foreign work force to continue working in the country and to improve the quality of their work. The proximate objectives of tax reform are to attract foreign investment, to induce more investments in machinery and less in construction, to encourage certain activities, and to reduce labor and other business cost (Asher 1987).

Consequently, Singapore has not only reduced the nominal corporate tax rate from 40 to 33 percent in 1987 but has also instituted countless tax incentives. These incentives take the form of exemptions/allowances/deductions relating to either specific expenditures like research and development, plant equipment, computers, or to investments in specific activities like fund management, warehousing and servicing industries, international consultancy services, nontraditional areas and those using new technologies. Tax expenditures are no less prevalent in the area of personal income taxation where employers' Central Provident Fund (CPF) contribution, interest income from CPF contribution, and interest income from deposits with the Post Office Savings Bank (POSB) are exempted, and increased child relief especially for qualified women are provided. It is thus inevitable that the above changes will result in a wide dispersion of effective tax rates across firms and activities (Asher 1988). Specifically, the CPF-related tax expenditures are seen as distorting the inter- and intratemporal choices. On the other hand, the tax expenditures on corporations "may help create an artificial comparative advantage which in the long run may delay the adjustment of the economy to market forces... Depending on source of income, firms with the same income may be subject to different actual rates of tax. Since most of the incentives are granted to capital invested, labor intensive industries at every level of income are subject to higher though varying tax rates" (Lim et al. 1988).

6/The justification provided by the government for this change is the need to remain competitive with other countries in Asia in attracting foreign investment.

In Thailand, some of the recent tax changes may be viewed as movements towards a more economically neutral tax regime. For instance, the reduction in the corporate income tax rate applicable to firms that are not registered with the Security Exchange of Thailand mitigates the bias against small and unlisted firms arising from the rate differential between listed and unlisted firms (Krongkaew et al. 1988). Similarly, the taxation of interest income from government bonds and other types of deposits (that were not taxed before) has led to a closing, albeit incomplete, of the differences in the effective tax rates on different forms of financial savings. While the immediate impact of the wider application of presumptive taxation to small firms is on revenue collection, it is likely that this will also enhance the neutrality of the tax system given the generally accepted perception that tax evasion adversely affects both efficiency and equity. The reduction of the business tax, which is really a sales tax imposed at the manufactures' level, on intermediate products from 9 to 1.5 percent in 1983 alleviated the production distortions inherent in the cascading nature of the said tax. On a prospective note, the introduction of the VAT is currently being debated. Such a move will greatly improve overall economic efficiency.

E. Equity Goals

Distributionally-neutral tax reform is defined as one which aims to leave unaffected the existing relative distribution of income. On the other hand, a redistributive tax reform is one that is directed towards influencing the distribution of after-tax income. Redistributive tax changes may either focus on improving vertical equity, i.e., a redistribution from the rich to the poor or it may content itself to the less ambitious goal of not making the poor worse off (Gillis 1989a).

The following features of the Indonesian tax reform have served its redistributive goals well: (1) the exclusion of the poorest segments of the population from the tax net via increased deduction allowances, (2) the shift away from the old system where selected types of incomes (particularly those that are important to the higher income households) are either lightly taxed or exempted, (3) the exemption of unprocessed food (which accounts for a big portion of the expenditures of low income groups) from the VAT as well as the imposition of a sales tax on certain luxury products, (4) the levying of a uniform rate of tax on all property income with the provision that all buildings valued below a threshold level are exempted such that all low-income housing are also outside the tax ambit (Gillis 1989b).

Asher and Jomo (1987) noted that the tax adjustments initiated in Malaysia in the 1980s are likely to adversely affect vertical equity. First, the reduction in rate schedule of the personal income tax favored taxpayers in the higher income brackets. While such a change may not have a significant impact on vertical equity in countries like the Philippines and Indonesia where the top marginal rates apply to income brackets that are for all practical purposes empty, this is not true for Malaysia. Based on the old regime, the ratio of the income of the highest income tax bracket to the mean family income was a low 4.4, implying that the top marginal rate applied to a good number of taxpayers (Sicat and Virmani 1987). Also, in the period, there was an increase in the sales tax. Since indirect taxes are generally regressive, then this movement is likely to lead to a more onerous tax system on equity grounds.

In the Philippines, equity is one of the stated goals of the 1986 tax reform program. However, there has been some discrepancy between policy objective and policy result. For instance, the changes in the individual income tax should make the tax more progressive, in principle. However, the failure of the government to minimize tax evasion via the imposition of ceilings on tax deductions has made this unlikely. In contrast, the introduction of the VAT and the restructuring of the petroleum product taxes, most especially the elimination of the tax on fuel oil, has ameliorated the tax burden on the poorer sectors of the society (Manasan 1990).

Distributional goals appear not to have played an important role in Singapore's tax reform. In fact, two specific measures launched in the 1980s may have worsened the regressivity of the tax system. These are: (1) the lowering of the marginal rate schedule of the personal income tax and (2) the increased child relief for "qualified women." While the latter change was put in place ostensibly to promote procreation among highly skilled/better educated (and presumably financially better off) women, it has the unintended effect of reducing their relative tax burden.

In Thailand, the reduction in the personal income tax rate is not expected to have a negative impact on vertical equity. This is because the top marginal tax rate under the old system is irrelevant to a large extent because they are applicable to incomes that are 20 times that of the average family income (Sicat and Virmani 1987). However, the widening of the income tax base is likely to improve the distributional quality of the tax. This came about because the new inclusions in the tax base are previously exempted income like interest income, etc., and previously untaxed income (because of evasion) that are usually associated with the higher income groups. Sussangkarn, et al. (1987) reported that the 1987 indirect tax structure was fairly neutral while the direct tax structure was progressive. Given earlier findings (notably by Krongkaew) that the old tax system was proportional, we can infer that the Thai tax reform was distributionally neutral if not redistributive.

F. Some Lessons

Perhaps one of the most important lessons that can be drawn from the tax reform experiments in the ASEAN in the last decade is that the upgrading of tax administration is just as essential as modifications in the tax structure. It cannot be overemphasized that administrative improvements, unlike most of the changes in tax structure, have a positive effect on revenue enhancement and distributional and resource allocation goals. This is particularly true of measures aimed at minimizing tax evasion. Tax administration reform played a big role in the Indonesian experience. In contrast, it was observed that in the Philippines, the failure to do the same has jeopardized the good intent of structural changes.

It is extremely important that enough lead time is spent in the formulation of the tax reform package as well as in the preparation for its implementation. This is a lesson that was learned the hard way by the Philippines, especially with reference to the adoption of the VAT. Indonesia devoted a whole three years and a good amount of manpower in the preparatory stage prior to tax reform and most tax analysts agree that it has been quite successful in its effort because of this.

The VAT does not only promote economic efficiency by eliminating the distortionary effect of input taxes but has also proven itself to be a virtual "money machine." In Indonesia, revenue from taxes on consumption rose from less than one percent of GDP to three percent of GDP with the introduction of the VAT. The Philippines was not as successful initially with the VAT revenue-wise because it got bogged down by administrative problems. However, in its second year of implementation, the VAT registered the highest growth in revenue amongst the various tax categories. Also, the VAT experience in the Philippines has shown that the gains in economic efficiency due to the shift to the VAT are large even if the tax replaced has VAT-like features. This is an important lesson for Malaysia and Thailand which are currently considering the adoption of the VAT. In Singapore, the arguments in favor of VAT take on a somewhat different task because of the absence of a general sales tax in Singapore at present.

The propensity of the ASEAN countries to use investment incentives to influence the size, composition, and geographical distribution of investments was very marked in the eighties. While the economic literature is replete with the pitfalls in terms of the induced biases in factor choice and firm size as well as revenues lost to foreign treasuries in the absence of tax sparing agreements between host and capital exporting countries, most of the ASEAN countries have, in fact, maintained their interventionist stance in this regard. In 1986, Indonesia, Malaysia, the Philippines and Thailand have revised their investment incentive schemes ostensibly to remain competitive with their neighbors. Only Indonesia has broken away from this mold. There are no indications that it has suffered undue disadvantage for doing so.

The lowering of the schedule of marginal tax rates for personal income, a shift that is common to all the ASEAN countries, is not likely to make the tax any less progressive if it is accompanied by base broadening measures as in Thailand and Indonesia. This is because (1) in most of the ASEAN countries, the top rates in their old system apply to a segment of the population that is practically nil, (2) high tax rates encourage evasion, and (3) the income sources that were previously excluded from the base weigh heavily in the total income of higher income groups. At the same time, we note that base broadening greatly enhance the neutrality of any tax.

Finally, we note that tax reform is usually directed at the attainment of multiple objectives. There are many instances when a particular tax measure will have satisfied on goal but not the other. The trade-off between efficiency and distributional considerations is highlighted in the empirical evaluation of the impact of the change to the VAT system in the Philippines. This, in turn, leads us to realize the importance of the proper use of government expenditure policy to address the redistributive goals of government.

IV. GOVERNMENT EXPENDITURE POLICY

We have already noted that all the ASEAN countries with the exception of Singapore experienced severe fiscal imbalances during the early part of the eighties. While some efforts have been exerted to increase tax yields via a reform of the tax system, at least in the short run, the uses side of the government budget has had to undergo considerable adjustments as well. This arose because even if the tax reform measures discussed in the preceding section explicitly included revenue enhancement as a goal, their impact on revenue is usually not felt immediately. Furthermore, the tax reform has to address multiple objectives, not all of which are consistent with revenue mobilization. In medium term, it is increasingly becoming apparent that the resources available to the public sector are limited even after tax reform so that a revamp of government expenditure policy has also to be undertaken. The elements of such a reform include (1) control of the overall level of government spending, (2) priority-setting in its allocation, and (3) ensurance of the quality within each spending category (World Development Report 1988).

In this section, we review the trends in the level and composition of government expenditures in ASEAN during the eighties. We also attempt to appraise whether the actual allocation of public spending is in areas where the government sector has a comparative advantage based on the concept of public goods. Such a judgment, necessarily subjective, is premised on the view that government resources are best expended only "to complement and support - rather than compete with - market-determined activities." Given time and resource constraints, we focus solely on a discussion of the "revealed" priorities in government spending in the ASEAN countries. An evaluation of the quality of government spending in particular sectors, an aspect which is just as important, is not included in this paper.

A. Government Expenditures: Current vs. Capital

During the early part of the 1980s, all of the ASEAN countries had to contend with large fiscal deficits. In response to this, fiscal austerity programs were pursued in all countries in the region with the exception of Singapore. Singapore, in fact, embarked on an expansionary expenditure policy in the 1980s which became even more aggressive in 1985 and 1986 presumably for purposes of demand management. In Malaysia, the burden of the fiscal adjustment program was shouldered primarily by the expenditure side. This was due to the fact that the tax measures introduced in the period were not revenue enhancing. Consequently, total government expenditures inclusive of net lending declined sharply from a peak of 46.6 percent of GDP in 1981 to 28.3 percent of GDP in 1988. In the Philippines, total disbursement was cut from 15.8 percent of GDP in 1981 to 12.4 percent in 1984. However, government expenditures rose to an all-time high of 17.6 percent of GDP in 1986 and has been maintained at comparatively high levels since. The resurgence of government expenditures in 1986 may be traced to the excesses in election spending in that year and the increased interest payments arising from the country's debt overhang. Thailand and Indonesia did not have to adjust its expenditures by as much as the other countries. For most of the eighties, they maintained their expenditures at levels close to 20 percent of GDP. (Please see Table 5.)

In general, capital expenditures bore the burden of adjustment. Malaysia exhibited the deepest cut in capital expenditures with its 1988 level equivalent to just one-fourth of the pre-austerity level in GDP terms. Indonesia, the Philippines, and Thailand likewise reduced their capital expenditures by almost two thirds of their peak levels expressed in GDP terms. In contrast, Singapore's capital expenditure was 4.5 percent of GDP at the start of the decade and rose to 12.2 percent of GDP in 1988.

On the other hand, current expenditures proved resilient to the onslaught of fiscal austerity measures. In the Philippines, current expenditures have increased relative to GDP during the adjustment period. This was largely due to the increased interest payments resulting from the heavy debt burden that was

Table 5
AGGREGATE EXPENDITURE INDICATORS IN ASEAN COUNTRIES
1978-1988

Country	Fiscal Year Ending	Total Exp. Net Lending /GDP	Current Exp./ GDP	Capital Exp./ GDP
INDONESIA	1978	21.4	10.7	9.6
	1979	22.8	11.5	9.7
	1980	23.5	11.7	10.4
	1981	25.6	11.8	12.6
	1982	22.4	11.2	10.5
	1983	23.6	11.4	10.8
	1984	20.1	10.8	8.5
	1985	22.5	12.1	9.9
	1986	26.0	14.2	11.8
	1987	22.8	15.5	7.6
	1988	21.2	15.6	5.8
MALAYSIA	1978	31.0	21.2	6.3
	1979	30.6	21.6	6.1
	1980	39.4	25.7	9.9
	1981	46.6	27.2	15.4
	1982	44.5	26.6	11.3
	1983	40.0	26.4	8.3
	1984	35.1	24.9	5.4
	1985	34.6	25.9	5.0
	1986	38.0	28.2	6.1
	1987	30.9	25.7	4.1
	1988	28.3	23.8	3.8
PHILIPPINES	1978	14.8	10.8	3.8
	1979	13.7	9.5	3.8
	1980	14.4	9.3	4.9
	1981	15.8	8.6	6.8
	1982	15.5	9.3	5.5
	1983	13.8	9.0	4.2
	1984	12.4	7.9	3.6
	1985	13.1	9.1	3.8
	1986	17.6	10.7	4.5
	1987	17.0	13.5	2.5
	1988	16.5	13.7	2.1
SINGAPORE	1978	23.0	15.7	3.9
	1979	23.0	15.6	4.1
	1980	24.2	15.6	4.4
	1981	28.9	18.3	5.0
	1982	27.5	16.7	4.6
	1983	30.1	17.1	5.5
	1984	25.1	19.5	6.7
	1985	35.8	18.8	8.4
	1986	37.7	17.8	12.1
	1987	35.6	23.1	13.2
THAILAND	1978	16.6	12.2	4.2
	1979	17.4	13.4	3.8
	1980	19.6	14.5	4.4
	1981	18.8	14.8	4.3
	1982	21.3	16.0	4.7
	1983	20.0	15.8	4.0
	1984	19.6	16.2	3.5
	1985	21.9	17.3	4.1
	1986	20.6	16.5	3.7
	1987	18.8	15.4	3.0
	1988	16.5	13.6	2.4

incurred because of earlier fiscal excesses. It is worth noting that had interest payments been netted out of this expenditure category, the level of total current expenditures relative to GDP would have remained unchanged except during the crisis years of 1983-1985. Furthermore, maintenance and other operating expenditures were reduced to half from 4.0 percent of GDP in 1980 tO 2.1 percent in 1985. It has not quite recovered since then.

Current government expenditures in Indonesia, Malaysia and Thailand also increased during the period. In Indonesia, this movement was particularly marked in 1986-1987. In Malaysia and Thailand, increases were posted in the first half of the 10-year period but a downturn was registered in the second half. We do not have enough data on the breakdown of these current expenditures so we are not able to assess the reasons for these movements.

What is disturbing about these trends are: (1) the sharp decline in maintenance expenditures, and (2) the marked reduction in capital expenditures for extended periods of time. While we realize that the governments of some of the ASEAN countries have poured money into unsound investment projects in the past, the continued reining in of public investments would greatly hamper the growth prospects of these countries particularly those that have not yet put in place the basic infrastructure needs of a developing economy. The lack of infrastructure is seen as a major bottleneck in Thailand and the Philippines. Furthermore, it is widely recognized that inadequate expenditure on maintenance is counterproductive as it leads to the premature deterioration of the existing stock of the assets.

B. Functional Distribution of Government Expenditures

Defense expenditures as a proportion of GDP declined almost consistently during the period in Indonesia, Malaysia and the Philippines. 7/ The cut in defense expenditure was most pronounced in Malaysia and the Philippines where current levels are just one-half of their peak levels when expressed as a ratio of GDP. Malaysia used to allocate around 18 percent of its budget on defense or about six percent of GDP so that even with this adjustment, its spending on this sector remains at par with that of Thailand (with 4 percent of GDP on defense expenditures) and slightly higher than that of Singapore. On the other hand, in 1988 the Philippines has the lowest government allocation on defense equal to 1.3 percent of GDP. There are some studies which indicate that military spending is negatively related to economic growth (World Development Report 1988). While these studies are by no means conclusive, it cannot be denied that the

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7/ In the Philippines, defense expenditures rose slightly after 1986.

opportunity cost of government expenditures on defense is high especially in countries with severe resource constraints.

Corollary to the earlier observation regarding the downward trend in capital outlays, we note here the marked reduction in expenditures on economic services particularly on transportation and communication in Indonesia, Malaysia, the Philippines and Thailand in the eighties. The opposite trend is exhibited by Singapore.

The Philippines and Singapore allotted an increasing portion of their budget on education. Thus, by 1986, Singapore's expenditure on education reached six percent of GDP. Despite this adjustment, education expenditure in the Philippines is equal to only 2.7 percent of GDP in 1988, one of the lowest in the region. These reallocations augur well for the redistributive goals of fiscal policy.

Another noteworthy development is the decline in the central government transfers to statutory boards and government corporations in the Philippines and Malaysia. This perhaps reflects the positive results of government efforts to rationalize the operations of their public enterprise sectors. On a similar note, Malaysia has also reduced expenditures on commerce, industry and mining. This may be indicative of the withdrawal of the government from direct involvement in production activities that are best left to the private sector.

Indonesia, the Philippines, and Singapore exhibited an increase in government expenditures on general administration. In the Philippines, government outlays on general public services proved to be more resilient than other items against expenditure cuts instituted during the economic crisis of 1983-1985. Moreover, in recent years, it has also recovered at a faster rate than most sectors. In fact, in 1988, general administration expenditures was more than two and a half times as large as government allocations for health. Similarly, Indonesia appears to be spending a disproportionate share (52.2 percent) of its budget on general public services as against 10 percent in education. These illustrate the possibilities with regard to a reallocation of the budget away from less productive to more productive areas.

C. <u>Some General Observations</u>

With the exception of Malaysia and to a lesser extent the Philippines, the ASEAN region does not appear to have resorted to an aggressive use of the expenditure side of the budget in terms of meeting distributional objectives or improving the overall allocation of the government budget (please refer to Table 6).

The most significant reallocation that occurred is the decline in capital outlays. Admittedly, during periods when

Table 6
FUNCTIONAL DISTRIBUTION OF GOVERNMENT EXPENDITURES IN ASEAN COUNTRIES, 1978-1988

	1978 Total Expenditures		1979 Total Expenditures		1980 Total Expenditures		1981 Total Expenditures		1982 Total Expenditures		1983 Total Expenditures	
	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.
INDONESIA												
Total Expenditures	20.3	100.0	21.2	100.0	22.1	100.0	24.4	100.0	21.7	100.0	21.7	100.0
General Public Services	5.9	29.0	7.1	33.7	7.4	33.2	7.1	29.0	6.5	29.8	7.1	31.8
Defense	3.2	15.8	3.1	14.7	3.0	13.5	3.1	12.7	3.0	13.9	2.6	11.6
Education	1.8	9.2	1.8	8.4	1.8	8.3	1.9	7.9	1.8	8.4	2.1	9.3
Health	0.4	2.1	0.5	2.4	0.6	2.5	0.6	2.5	0.5	2.5	0.5	2.2
Social Services	0.4	2.1	0.6	2.7	0.6	2.8	0.5	1.9	0.5	2.4	0.5	2.3
Economic Affairs & Services	7.9	39.0	8.1	38.3	8.9	40.2	8.7	35.5	8.3	38.2	8.8	39.4
Agriculture	1.9	9.2	1.9	8.8	2.2	10.0	2.0	8.0	1.9	8.5	1.6	6.9
Transportation & Comm.	3.6	17.8	3.6	16.9	4.1	18.4	3.6	14.8	2.3	10.6	3.6	16.1
Other Economic Services	0.4	2.1	0.5	2.4	0.7	3.2	0.8	3.1	1.4	5.6	0.0	0.0
Others	2.4	11.8	-0.0	-0.1	-0.1	-0.6	2.5	10.4	1.1	4.9	0.0	0.0
MALAYSIA												
Total Expenditures	31.2	100.0	30.9	100.0	39.7	100.0	46.9	100.0	45.0	100.0	40.3	100.0
General Public Services	1.7	5.6	1.7	5.6	2.6	6.5	2.8	6.0	3.1	6.8	2.4	6.0
Defense	5.8	18.5	5.5	17.8	6.4	16.0	8.2	17.4	8.2	18.3	6.8	16.8
Education	5.4	17.3	4.9	15.8	5.2	13.2	6.1	13.0	6.5	14.5	5.6	13.9
Health	1.6	5.2	1.4	4.7	1.5	3.7	1.7	3.6	1.7	3.8	1.4	3.5
Economic Affairs & Services	7.6	24.3	6.0	19.3	9.5	23.9	12.9	27.5	11.4	25.2	9.2	22.9
Agriculture	2.5	8.2	2.3	7.6	2.9	7.3	3.5	7.4	3.6	8.0	3.6	7.1
Transportation & Comm.	3.1	10.0	2.6	8.4	3.4	19.0	3.3	7.1	4.9	10.9	2.9	10.4
Other Economic Services	1.9	6.2	1.0	3.4	3.2	-2.4	6.1	13.1	2.9	6.4	2.8	5.4
Others	9.1	29.2	11.4	36.9	14.6	36.7	15.2	32.6	14.2	31.4	14.8	36.8
PHILIPPINES												
Total Expenditures	15.5	100.0	15.1	100.0	14.0	100.0	15.8	100.0	16.4	100.0	16.1	100.0
General Public Services	2.1	14.1	2.0	13.9	1.8	14.0	2.1	14.2	1.5	10.9	1.9	14.4
Defense	2.1	14.5	2.0	13.8	1.6	12.2	1.5	10.4	1.8	12.7	1.4	10.9
Education	2.0	13.9	1.8	12.9	1.8	14.0	2.0	13.2	1.9	14.1	1.7	12.7
Health	0.5	3.7	0.6	3.9	0.5	4.1	0.6	3.9	0.6	4.5	0.6	4.6
Economic Affairs & Services	7.3	50.0	6.9	48.2	6.3	48.8	7.7	52.0	7.2	51.9	6.5	49.0
Agriculture	1.3	8.8	0.4	2.7	0.5	3.5	0.8	5.1	0.8	5.7	0.9	70.0
Transportation & Comm.	3.6	24.5	4.0	28.0	3.5	26.8	3.6	24.2	3.3	23.8	3.2	24.2
Other Economic Services	2.4	16.7	2.5	17.5	2.4	18.4	3.3	22.7	3.1	22.4	2.3	-45.2
Others	1.5	3.9	1.9	7.2	2.0	6.9	2.0	6.3	3.4	6.0	4.0	8.4

Table 6 (cont'd)

	1984 Total Expenditures		1985 Total Expenditures		1986 Total Expenditures		1987 Total Expenditures		1988 Total Expenditures	
	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.
INDONESIA										
Total Expenditures	19.2	100.0	21.9	100.0	22.5	100.0	23.0	100.0	20.9	100.0
General Public Services	6.2	32.2	7.7	34.9	8.4	32.4	10.2	44.3	11.2	52.2
Defense	2.5	12.9	2.3	10.6	2.4	9.3	2.0	8.6	1.8	8.3
Education	2.2	11.3	2.3	10.4	2.2	8.5	2.0	8.8	2.1	10.0
Health	0.5	2.5	0.6	2.5	0.5	1.9	0.3	1.5	0.4	1.8
Social Services	0.5	2.5	0.6	2.8	0.5	2.1	0.5	2.3	0.5	2.3
Economic Affairs & Services	7.3	37.9	7.1	32.3	5.0	19.3	4.7	20.6	4.9	23.1
Agriculture	2.3	11.8	1.5	6.9	1.2	4.6	2.0	8.5	1.5	6.8
Transportation & Comm.	0.0	13.7	2.5	11.3	1.3	4.9	1.5	6.5	1.6	7.4
Other Economic Services	0.0	0.0	0.0	0.0	0.8	3.1	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	6.9	26.6	0.0	0.0	0.0	0.0
MALAYSIA										
Total Expenditures	35.5	100.0	35.1	100.0	38.5	100.0	32.0	100.0	29.6	100.0
General Public Services	2.2	6.2	2.8	7.9	3.2	8.3	3.3	10.4	2.2	7.5
Defense	5.4	15.4	5.0	14.4	5.3	13.8	4.5	14.2	3.9	13.3
Education	5.3	14.9	5.6	16.0	6.8	17.6	5.9	18.5	5.7	19.2
Health	1.3	3.7	1.4	4.1	1.7	4.5	1.4	4.5	1.4	4.6
Economic Affairs & Services	7.2	20.4	6.7	19.2	7.8	20.3	5.3	16.6	5.1	17.2
Agriculture	2.4	6.7	2.8	8.1	2.9	7.5	2.3	7.2	2.1	7.0
Transportation & Comm.	3.5	9.9	2.8	8.0	3.7	9.7	1.8	5.7	1.8	6.1
Other Economic Services	1.3	3.8	1.1	3.1	1.2	3.2	1.2	3.7	1.2	4.0
Others	14.0	39.4	13.5	38.4	13.7	35.5	11.5	35.9		38.2
PHILIPPINES										
Total Expenditures	17.3	100.0	14.5	100.0	18.3	100.0	22.0	100.0	23.1	100.0
General Public Services	1.6	15.8	1.7	16.1	2.0	14.1	2.7	23.4	3.1	15.8
Defense	1.2	12.0	1.0	9.7	1.2	8.9	1.2	10.0	1.3	12.0
Education	1.5	14.4	1.6	15.1	2.2	16.1	2.4	19.9	2.7	14.4
Health	0.4	4.2	0.5	4.3	0.5	3.8	0.6	5.4	0.7	4.2
Economic Affairs & Services	5.0	49.2	5.4	50.8	6.6	47.9	4.7	37.8	5.1	49.2
Agriculture	0.5	5.2	0.6	5.3	0.2	1.7	1.3	7.9	1.1	5.2
Transportation & Comm.	1.2	11.6	1.0	9.7	1.6	11.9	2.1	17.0	2.3	11.6
Other Economic Services	3.3	32.5	3.8	35.8	4.7	34.3	1.3	13.0	1.7	32.5
Others	7.6	4.5	4.5	4.1	5.7	9.2	10.4	3.6	10.2	4.5

Table 6 (cont'd)

	1978 Total Expenditures		1979 Total Expenditures		1980 Total Expenditures		1981 Total Expenditures		1982 Total Expenditures		1983 Total Expenditures	
	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.
SINGAPORE												
Total Expenditures	19.6	100.0	19.6	89.4	20.0	100.0	23.3	100.0	21.2	100.0	22.5	100.0
General Public Services	2.0	10.2	2.3	11.9	2.0	9.8	3.1	13.4	2.8	13.4	2.8	12.2
Defense	5.3	27.1	4.9	24.7	5.1	25.2	5.1	21.9	4.9	23.1	4.2	18.5
Education	2.9	14.6	3.0	15.1	2.9	14.6	4.5	19.2	4.1	19.4	4.9	21.6
Health	1.7	8.6	1.4	7.1	1.4	7.0	1.7	7.2	1.4	6.5	1.4	6.4
Social Services	2.2	11.2	2.1	10.63	1.8	9.0	2.3	9.91	2.1	9.78	1.6	7.1
Economic Affairs & Services	2.4	12.4	2.7	13.5	3.6	17.7	3.6	15.3	3.1	14.4	3.2	14.3
Agriculture	0.1	0.3	0.1	0.5	0.1	0.4	0.1	0.5	0.1	0.4	0.1	0.3
Transportation & Comm.	1.6	8.0	1.8	9.1	2.0	10.1	1.5	6.5	1.3	5.9	1.3	5.6
Other Economic Services	0.8	3.9	0.8	3.9	1.4	7.0	1.9	8.0	1.7	7.9	1.8	8.2
Others	3.1	16.0	3.3	17.0	3.3	16.7	3.1	13.1	2.8	13.5	4.5	20.0
THAILAND												
Total Expenditures	16.3	100.0	17.1	100.0	18.9	100.0	18.9	100.0	20.6	100.0	19.7	100.0
General Public Services	1.5	8.9	1.6	9.1	1.6	8.6	1.5	8.1	1.8	8.8	1.8	9.2
Defense	3.6	21.7	4.1	24.0	4.1	21.7	3.8	20.2	4.1	19.8	3.8	19.4
Education	3.3	20.2	3.5	20.6	3.8	19.8	3.6	18.9	4.1	19.9	4.0	20.3
Health	0.7	4.4	0.8	4.5	0.8	4.1	0.8	4.2	1.0	4.8	1.0	5.0
Social Services	0.8	5.2	1.1	6.5	1.0	5.2	1.1	5.8	1.0	4.8	0.9	4.6
Economic Affairs & Services	4.0	24.5	3.4	19.9	4.6	24.2	4.8	25.1	5.3	25.4	4.6	23.3
Agriculture	1.6	9.8	1.6	9.5	1.8	9.7	2.0	10.4	2.2	10.6	2.0	10.3
Transportation & Comm.	1.5	9.2	1.4	8.4	1.9	10.1	1.7	8.8	1.7	8.3	1.6	7.8
Other Economic Services	0.3	2.0	0.1	0.7	0.6	3.1	0.5	2.6	0.4	2.0	0.4	20.2
Others	2.4	14.8	2.6	15.0	3.1	16.1	3.4	17.7	3.3	16.6	3.6	18.0

Table 6 (cont'd)

	1984 Total Expenditures		1985 Total Expenditures		1986 Total Expenditures		1987 Total Expenditures		1988 Total Expenditures	
	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.	/GDP	/Tot. Exp.
SINGAPORE										
Total Expenditures	26.1	100.0	27.1	100.0	29.9	100.0	36.2	100.0		
General Public Services	2.9	11.1	3.8	14.1	3.6	12.1	5.2	14.7		
Defense	5.3	20.1	6.1	22.5	5.7	19.0	5.3	14.6		
Education	5.3	20.2	5.9	21.6	5.4	18.2	5.2	14.4		
Health	1.6	6.2	1.8	6.5	1.2	4.1	1.3	3.6		
Social Services	2.2	8.4	1.7	6.4	4.9	16.4	4.2	11.5		
Economic Affairs & Services	3.9	15.0	4.8	17.7	5.9	19.9	5.7	15.6		
Agriculture	0.1	0.4	0.1	0.4	0.0	0.0	0.0	0.0		
Transportation & Comm.	1.6	6.1	2.7	10.0	0.0	0.0	0.0	0.0		
Other Economic Services	2.2	8.5	2.0	7.2	0.0	0.0	0.0	0.0		
Others	5.0	18.9	3.1	11.8	3.1	10.4	9.3	25.6		
THAILAND										
Total Expenditures	19.6	100.0	21.3	100.0	20.1	100.0	18.4	100.0	16.0	100.0
General Public Services	1.8	9.3	1.9	9.1	1.9	9.2	1.7	9.2	1.5	9.3
Defense	3.9	19.8	4.3	20.2	3.8	19.1	3.4	18.7	3.0	18.7
Education	4.1	20.7	4.2	19.5	3.9	19.5	3.6	19.3	3.1	19.3
Health	1.1	5.4	1.2	5.7	1.2	6.1	1.1	6.1	1.0	6.2
Social Services	0.9	4.5	1.0	4.7	1.0	4.9	1.0	5.3	0.9	5.4
Economic Affairs & Services	3.9	20.0	4.8	22.6	4.2	20.9	3.9	21.1	3.1	19.5
Agriculture	2.0	10.0	2.5	11.7	2.1	10.4	1.9	10.3	0.0	0.0
Transportation & Comm.	1.2	6.1	1.4	6.4	1.2	6.0	1.1	6.1	0.9	5.3
Other Economic Services	0.4	2.1	0.4	2.0	0.5	2.3	0.4	2.1	0.4	2.3
Others	3.9	19.9	3.8	18.0	4.1	20.3	3.7	20.0	3.4	21.3

quick fixes are needed in the budget, this is the most likely candidate. Extended periods of low public investments in basic infrastructure may, however, result in serious bottlenecks in the future.

The discussion above is seriously limited by its failure to look at more detailed programs at the sectoral level. It has also hinted at another potent policy area: the reform of the public enterprise sector. There is a renewed interest on privatization and deregulation worldwide. The ASEAN countries, specifically the Philippines and Malaysia, have undertaken some adjustments in this area. Resource constraints forced us to leave a review of these issues to future work.

Finally, we note that the particular circumstances that trigger the institution of reform measures vary from country to country. However, while the differences are many in terms of the type of policy instruments that were chosen, certain uniformities can also be discerned. Certainly, there are important lessons to be learned from each other's experience.

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